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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

TIFFANY (NJ) INC. and TIFFANY AND COMPANY,

Plaintiffs,

-v-

eBAY INC.,

Defendant.

Case No. 04-CV-4607 (KMK)

ORDER

KENNETH M. KARAS, District Judge:

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Co. have initiated the present action against Defendant eBay, Inc., seeking to enjoin Defendant from certain alleged infringements of the Lanham Act. The parties have already engaged in some discovery, and Defendant now seeks to amend its Answer in order to plead an "unclean hands" defense, arguing that Plaintiffs have engaged in inequitable conduct that is related to the subject matter of their infringement suit. Plaintiffs oppose Defendant's Motion to Amend the Answer on the grounds that it would be futile to do so, specifically arguing that there is no evidence that Plaintiff's conduct was inequitable or in bad faith, and further, that the alleged inequitable conduct was not directly related to the subject matter of the litigation. As this Court finds that the defense articulated in Defendant's Motion to Amend the Answer is facially insufficient, the Motion is DENIED.

Amendment Under Federal Rule of Civil Procedure 15(a)

Typically, the district court "has discretion whether or not to grant leave to amend, and its decision is not subject to review on appeal except for abuse of discretion." *Ruffolo v. Oppenheimer & Co.*, 987 F.2d 129, 131 (2d Cir. 1993). However, under Federal Rule of Civil

Procedure 15(a), "[l]eave [to amend] shall be freely given when justice so requires." Fed. R. Civ. P. 15(a). Thus, if the "underlying facts or circumstances relied upon" by the moving party may constitute a proper subject of relief, that party "ought to be afforded an opportunity to test his claim on the merits." *Foman v. Davis,* 371 U.S. 178, 182 (1962).

"'[U]ndue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party . . . [or] futility of amendment' will serve to prevent an amendment prior to trial." *Dougherty v. Town of N. Hempstead Bd. of Zoning Appeals*, 282 F.3d 83, 87 (2d Cir. 2002) (quoting *Foman*, 371 U.S. at 182). "A motion for leave to file an amended answer should not be denied on the basis of futility unless the proposed amendment is clearly frivolous or facially insufficient and, where the proposed amendment raises a colorable defense, the court should not consider its substantive merits but should grant leave to amend and allow the opposing party to subsequently test the merits of the amendment through a dispositive motion." *Citizens Bank & Trust Co. v. Se-Fish Assocs.*, No. 99-CV-0417E, 2002 WL 31017604, at *4 (W.D.N.Y. July 23, 2002); *see also Health-Chem Corp. v. Baker*, 915 F.2d 805, 810 (2d Cir. 1990) ("Although Fed. R. Civ. P. 15(a) provides that leave to amend should be given freely when justice so requires, where, as here, there is no merit in the proposed amendments, leave to amend should be denied."). However, "outright refusal to grant the leave [to amend] without any justifying reason appearing for the denial is . . . abuse of [] discretion and inconsistent with the spirit of the Federal Rules." *Foman*, 371 U.S. at 182.

The Unclean Hands Defense

Here, Defendant seeks to amend the Answer under Rule 15(a) in order to add an unclean hands defense because of certain "inequitable" misrepresentations by Plaintiffs to eBay users. (Def. Mem. 10) Defendant claims that Plaintiffs "improperly enlarge[] the scope of the very trademark rights [they] seek[] to assert" by "perpetuating the false notion that [authentic] products bearing the Tiffany marks are only available through Tiffany stores, catalogues and websites." (Def. Mem. 11)

"Unclean hands" may be a defense to a suit in equity such as one under the Lanham Act where the party seeking to stop the other from infringing its trademark "is guilty of conduct involving fraud, deceit, unconscionability, or bad faith related to the matter at issue to the detriment of the other party." *Gidatex, S.r.L. v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d 126, 131 (S.D.N.Y. 1999) (citations and emphasis omitted). While Defendant must show that Plaintiffs' conduct is (1) inequitable and (2) related to the subject matter of its claims, *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 847 (9th Cir. 1987), there is no specific formula for a court to apply—instead, the court is free to exercise its discretion where "[a]ny willful act concerning the cause of action which rightfully can be said to transgress equitable standards of conduct" has been taken by the party that claims its rights have been infringed. *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 815 (1945). However, "[i]t is undisputed that an unclean hands defense requires a finding of bad faith." *Jones Apparel Group, Inc. v. Piccone*, No. 94 Civ. 0754, 1994 WL 260767, at *4 (S.D.N.Y. June 8, 1994); *see also Deere Co. v. MTD Holdings, Inc.*, No. 00 Civ. 5936, at *2 (S.D.N.Y. Aug. 11, 2004). Furthermore, it should be remembered that the "unclean hands doctrine" is "not to be used as a loose cannon, depriving a plaintiff of an equitable remedy to which he is otherwise entitled merely because he is guilty of unrelated misconduct." *Am. Hosp. Supply Corp. v. Hosp. Prods. Ltd.*, 780 F.2d 589, 601 (7th Cir. 1985).

Was Plaintiff's Conduct Inequitable and in Bad Faith?

In considering whether conduct is inequitable, courts look to make sure plaintiffs have not "misused their trademarks or trade identities in furtherance of inequitable conduct" or "procured or maintained [its] trademark registrations by false or fraudulent misrepresentation." *See De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate Inc.*, No. 04 Civ. 4099, 2005 WL 1164073, at *4 (S.D.N.Y. May 18, 2005). For example, when the allegedly infringed trademark is itself deceptive, the defendant may raise the defense of unclean hands. *See Russian Kurier, Inc. v. Russian Am. Kurier, Inc.*, 899 F. Supp. 1204, 1211 (S.D.N.Y. 1995). Further, a defendant may claim a defense of unclean hands where the trademark itself is not deceptive, but the plaintiff acted in bad faith towards the defendant. *See Worthington v. Anderson*, 386 F.3d 1314, 1320 (10th Cir. 2004) (stating that unclean hands defense applies where "the plaintiff has acted inequitably towards the defendant in relation to the trademark").

Citing emails from Tiffany to eBay members, as well as statements on an "About me" webpage and in an advertisement in the national media, Defendant contends that Plaintiffs have falsely advised eBay customers and other consumers that Tiffany & Co. is the only authorized seller of Tiffany merchandise, thus erroneously implying that Tiffany's merchandise sold or re-sold by any other supplier, including one using eBay, is counterfeit. (Def. Mem. 4-5)

Plaintiffs argue that the statements relied upon by Defendant, taken together and in their full context, are not false or misleading. For example, one email from a Tiffany employee to an eBay member explicitly acknowledged that an "individual who owns a Tiffany & Co. item, bought in a Tiffany store, can justifiably re-sell their authentic Tiffany item on eBay." (Decl. of R. Bruce Rich, Ex. D, TCO 12281) ("Rich Decl.") Moreover, while another email indicates that a customer can "ONLY find authentic Tiffany merchandise at a Tiffany & Co. store or on our internet site," (Rich Decl. Ex. D, TCO 12281) the "About me" website contains a statement that the only way a customer can "be certain that" that a Tiffany product is genuine is by purchasing it directly from Tiffany. (Rich Decl. Ex. G) Furthermore, Plaintiffs argue, some of the statements about genuine Tiffany merchandise being available solely from Tiffany explicitly relate only to jewelry and implicitly discuss only new items. (Rich Decl. Ex. G; Pls.' Mem. 7) Beyond this, it is apparent from the emails that Plaintiffs believe that the vast majority (approximately ninety percent) of Tiffany items sold on eBay are counterfeit, (Rich Decl. Ex. C, TCO 12281) and that Plaintiffs have used these emails to eBay members as a means of preventing the sale of additional counterfeit items. (Rich Decl. Ex. C, TCO 12281, TCO 24100) For example, some of the emails warn would-be sellers that the items they are putting up for auction on eBay were purchased from previously identified counterfeiters, and/or request the eBay sellers to produce a valid proof of purchase for the Tiffany item before selling it on eBay. (Rich Decl. Ex. D, TCO 3437-40; Ex. E, TCO 32110-12)

While Plaintiffs' explanation of the statements is more persuasive than that of Defendant, it cannot be said as a matter of law that Plaintiffs' statements are subject only to the interpretation they ascribe to them, namely, that authentic Tiffany items may be re-sold on eBay (or anywhere), but that "new" items may only be purchased from Tiffany stores and the Tiffany website. Indeed, based on how some of the recipients of the emails reacted, it would appear to be a fact question whether all who would read Plaintiffs' statements would agree with their interpretation of them. Thus, the motion cannot be denied on the basis that the statements are accurate, or subject only to one interpretation.

However, even assuming that Plaintiffs' statements could be interpreted as Defendant suggests, and thus could qualify as inequitable conduct, Defendant has not pled any bad faith on the part of Plaintiffs in making these statements. "Typically, courts that have denied injunctive relief due to plaintiff's unclean hands have found plaintiff guilty of truly unconscionable and brazen behavior." *Gidatex*, 82 F. Supp. 2d at 131. Here, the most that can be said is that Plaintiffs were aggressive in the defense of their mark, and that statements that were intended to scare off would-be sellers of counterfeit Tiffany products on eBay also deterred the legitimate re-sale of genuine Tiffany products. Such actions in the defense of a mark, even if aggressive, do not rise to the level of unconscionable or brazen behavior that is necessary to succeed under the clean hands doctrine. *See Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 61 (2d Cir. 1997) ("Efforts to protect trademarks, even aggressive ones, serve the competitive purpose of furthering trademark policies.").

As such, this case is similar to *Deere*, *supra*, where the defendant sought to tender an unclean hands defense against a plaintiff accused of "knowingly misrepresenting to the public the nature and scope of its alleged green and yellow marks," and "purposefully causing the consumer confusion of which it now complains." 2004 WL 1794507, at *1. In dismissing the affirmative defense, the court held that there was "no evidence in the record to support [defendant's] contention that Deere has intentionally misrepresented the nature and scope of its trademarks and trade dress to the public through bad-faith promotional efforts." *Id.* at *3. The same is true here. The proposed affirmative defense therefore fails.

Was Plaintiffs Conduct Related to the Subject Matter of its Claims?

Even assuming, however, that Plaintiffs' conduct was inequitable and done in bad faith, the proffered defense fails because it is not related to the subject matter of Plaintiffs' claims against Defendant. "The equitable defense of unclean hands applies only when the inequitable conduct complained of by the defendant relates to the claim asserted against it." *Precision Instrument*, 324 U.S. at 814-15; *see also Gidatex*, 82 F. Supp. 2d at 131; *De Beers LV Trademark Ltd.*, 2005 WL 1164073, at *3 (holding plaintiff's alleged anti-competitive, monopolistic behavior in the general diamond market to be too disconnected to the subject matter of the infringement action to constitute unclean hands). "[E]xamples of conduct that might qualify as sufficiently related to a trademark action to support an unclean hands defense are when a plaintiff 'encouraged or induced the commission of a wrong, or . . . a trademark, allegedly infringed by the defendant, is itself deceptive, or . . . the plaintiff procured or maintained his trademark registrations by false or fraudulent misrepresentations.'" *Id.* at *4 (quoting Louis Altman, *Callman on Unfair Competition, Trademarks and Monopolies* § 23:17 (4th ed.)). Examples of activities that do not qualify as related to the action include instances where a valid mark was used in a deceptive manner against a non-party, *see Russian Kurier*, 899 F. Supp. at 1211 (no unclean hands where plaintiff infringed copyrights of non-party news organizations in the newspaper whose trademark plaintiff sought to protect from defendants infringement) (listing cases), and where there was false advertising, *see R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc.*, No. 99 C 1174, 2001 WL 747422, at *3 (N.D. Ill. June 29, 2001) (holding that advertisements misleading public as to safety of cigarettes did not constitute unclean hands).

Defendant argues that Plaintiffs' alleged misrepresentations are related to the subject matter of this claim because through the challenged statements, "Tiffany improperly enlarges the scope of the very trademark rights it seeks to assert" in an attempt to prevent secondary market sales. (Def. Mem. 11-12) However, Defendant's claim fails on this element because Plaintiffs' representations as to the scope of its trademark to eBay users are unrelated to Plaintiffs' suit against Defendant for direct and contributory infringement of Plaintiffs' trademarks. Defendant has not alleged the existence of any deceptive marks, or that Plaintiffs have engaged in any fraud in connection with the procurement or maintenance of the trademark registration. Nor does Defendant claim that any misleading representations were to Defendant itself. Put another way, there is nothing in Defendant's proposed use of the unclean hands doctrine that would serve as a valid defense to Plaintiffs' allegations.[1] Therefore, because the proposed unclean hands defense is facially insufficient, the Answer should not be amended to include this defense.

[1]To the extent that Defendant believes it was harmed by Plaintiffs' conduct, that alone does not make out a defense of unclean hands. At best, it could represent some other form of improper anti-competitive behavior. *See Deere*, 2004 WL 1794507, at *3 ("Although the courts are unsettled about whether the defense of 'trademark misuse' even exists, it has been applied where a defendant can show that a plaintiff has used its marks in violation of the antitrust laws or had made misrepresentations to the public in an attempt to increase the scope of its marks."). However, that is a different claim than one grounded in unclean hands. *Cf. Resqnet.com, Inc. v. Lansa, Inc.*, No. 01 Civ. 3578, 2004 WL 1627170, at *4 (S.D.N.Y. July 21, 2004) ("Patent misuse and inequitable conduct are different defenses.").

Conclusion

As Defendant has not proposed an amendment to its Answer which a raises a facially sufficient defense, leave to amend is DENIED. The clerk of the Court is instructed to terminate the Motion. (Doc. No. 14)

SO ORDERED.

Dated: March 31, 2006
New York, New York

KENNETH M. KARAS
UNITED STATES DISTRICT JUDGE